Coats UK Pension Scheme Trustees Limited
Cornerstone
107 West Regent Street
Glasgow
G2 2BA

Telephone 0141 207 6800
www.coatspensions.co.uk

Coats UK Pension Scheme Taskforce for Climate-Related Financial Disclosures ('TCFD') Report

31 March 2023

Table of Contents

Foreword 2

Executive Summary 2

Introduction 4

Governance 4

Strategy 6

Risk Management 10

Metrics and Targets 12

Corah Defined Contribution Section 15

Appendix A: Monitoring Climate-Related Risks and Opportunities Policy (Extract from Statement of Investment Principles) 16

Appendix B: Scenario Analysis 17

Appendix C: Carbon Footprint Analysis 18

Appendix D: Portfolio Alignment Metric 18

Appendix E: SBTi and MSCI Climate Metrics Output 19

Glossary of Terms (ESG and Carbon Metrics) 22

Foreword

This statement has been produced by the Trustee of the Coats UK Pension Scheme ("CUKPS" or "the Scheme") as required by regulation 6 of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

This statement relates to the year ending 31st March 2023 to align with the Scheme's financial year-end and details the work conducted by the Trustee over the year in the assessment, monitoring and mitigation of climate-related risks. This is the Trustee's first Climate Change Governance report. The Trustee continues to develop and strengthen its reporting framework and expects to build on this in following years.

This report has been prepared to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, taking into account Department for Work and Pensions' (DWP) statutory guidance. The report explains how the Trustee, has established and maintained oversight and processes to satisfy themselves that the scheme's relevant climate-related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the scheme. The sub-headings in this report address the specific disclosure requirements in the statutory guidance and which are based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

Executive Summary

Governance

The Trustee has articulated a governance structure which specifies roles regarding climate change risks and opportunities within the investment funding committee's (IFC) terms of reference. Climate beliefs have also been articulated within the Trustee's climate risk mitigation document, which underlines the responsible investment beliefs and approach to measuring and managing climate risks and opportunities. Further, the Trustee has received training on climate change risks and opportunities, carbon emissions and targets, climate change scenario analysis, and stewardship to help in its understanding of how climate change may impact the Scheme.

Strategy

In order to assess the potential impact of both physical and transition risk over the short-term, medium-term, and long-term, the Trustee performed scenario analysis on the Scheme's assets and liabilities under three different scenarios. Under all scenarios, the Scheme's funding level is projected to fall, with the largest expected impact occurring under a 'No Transition' scenario (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels) stemming from physical risks. However, the Scheme is expected to reduce its allocation to real assets such as property and therefore physical risks over time. The Trustee has also engaged the actuary, Lane, Clark and Peacock (LPC), to assess the impact of mortality and the covenant advisor, Price Waterhouse Cooper (PwC), to assess the covenant resilience in the context of climate change. The covenant advisor, PwC, highlights that the main risk is that the sponsor may fail to transition to a low carbon model and therefore increase its cost base. However, Coats have mitigation strategies in place to manage these climate risks and therefore reduce the possible impact on the sponsor's ability to meet agreed contributions.

Risk Management

The Trustee recognises the Scheme is exposed to climate change-related risks and it has created processes to identify, assess and manage these risks, including the definition of a

climate-risk mitigation document and an environmental, social and governance (ESG) and stewardship policy in the Statement of Investment Principles (SIP). The Trustee receives climate reporting on a quarterly basis, which allows the Trustee to manage the climate-related risks which are relevant to the Scheme in a timely manner, as well as monitor the progress of the Scheme on these metrics. The Trustee has set an interim scope 1 and 2 emissions reduction target of 50% by 2030 against a 31 March 2022 baseline and have aspirations to become net zero by 2050. This target has been codified into the Scheme's Pensions Risk Management Framework (PRMF).

The Trustee has considered and implemented changes to the investment strategy to limit exposure to climate-related risk and take advantage of climate-related opportunities. For brevity where we refer in this report to the risks and opportunities relating to climate change, we mean this to cover both the risks arising from changes in the climate itself and the risks and opportunities presented by the anticipated transition of economies and society to a lower carbon future.

The Trustee has focused its effort on implementing decarbonisation within its segregated credit mandate held with BlackRock, including the liability-driven investment (LDI), Buy and Maintain and the environmentally aware liquidity fund within the LDI portfolio, applying exclusions on issuers in carbon-intensive sectors. Over the period, the Trustee has also transitioned its pooled holdings with M&G and Legal and General Investment Management (LGIM) into sustainable fund alternatives, switching to the LGIM Low Carbon Transition equity fund and M&G's sustainable absolute return credit strategy. Each of the strategic climate and ESG related enhancements noted enabled the Scheme to make demonstrable progress to achieving its decarbonisation targets over the year.

Beyond strategic changes within the Scheme's mandates, the Trustee periodically meets with its managers to ensure climate-related risks are integrated and managed, as well as to assess and challenge them on their ESG practices. Active engagement with the Scheme's managers is also supported by the Scheme's investment consultant, Redington. The Trustee utilises the manager research and monitoring capabilities of Redington to effectively assess climate-related risks and opportunities as part of the manager selection and portfolio construction process.

Metrics and Targets

To identify, assess and monitor climate-related risks, the Trustee measures the following metrics:

- Total greenhouse gas emissions of the Scheme's assets ("absolute emissions metric");
- Carbon footprint – i.e. total carbon dioxide emissions for the portfolio per million pounds invested ("emissions intensity metric");
- Monitor climate risk in the investment strategy using the Prudential Regulation Authority (PRA) Slow Transition stress test (i.e. "additional climate change metric"); and
- Science Based Target initiative "SBTi" portfolio alignment metric ("alignment metric").

As noted above, the Trustee has agreed a target to align the Scheme's investment strategy with the goals of the Paris Agreement, i.e. to aim to reduce the Scope 1 and 2 carbon footprint of the Scheme's assets by 50% by 2030 (compared to a baseline as of 31 March 2022), which is informed by a wider aspirational ambition to become net zero by 2050.

The Trustee will monitor these chosen metrics, and progress against the above targets, on an annual basis.

Introduction

The objective of this statement is to set out the actions taken by the Trustee in identifying, assessing and managing climate-related risks and opportunities under the purview of the Trustee's broader regulatory and fiduciary responsibility to its members. This statement has been prepared in accordance with the regulations set out under "The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021". As part of these regulations, the Scheme is legally required to produce formal disclosures in line with the recommendations of the TCFD. This report covers the period from 1 April 2022 to 31 March 2023.

The Trustee supports the recommendations set out by the TCFD on the basis that they will allow the Trustee to identify, assess, monitor, and mitigate climate-related risks on behalf of its members. This is the Trustee's first disclosure under the framework and this statement is therefore expected to evolve over time.

The Trustee has a keen focus on investing responsibly and supports global action against climate change. The four elements covered in the statement are detailed below:

- **Governance:** The Scheme's governance around climate-related risks and opportunities.

- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Scheme's strategy and financial planning.

- **Risk Management:** The processes used to identify, assess, and manage climate-related risks.

- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Governance

The Trustee Board is ultimately responsible for identifying, assessing, and monitoring climate-related risks and opportunities which are relevant to the Scheme, as outlined in the Trustee's SIP. The Trustee has also defined a climate-risk mitigation document. The document outlines the responsible investment beliefs and principles underpinning the Trustee's approach to climate change considerations, spanning both risks and opportunities, and this is covered in further depth later in this section.

In order to assist in the implementation of the Trustee's investment policies and climate-related investment objectives, certain delegations are made to a sub-committee of the board, the Investment and Funding Committee (IFC).

The roles and responsibilities for climate risk mitigation, as delegated by the IFC's Terms of Reference, which was updated in November 2022 to include responsibilities regarding climate-related risks and opportunities, are detailed below:

- **The Trustee board** sets the overall investment and funding strategy and objectives (having consulted with the Company) which includes the oversight of identification, assessment and management of climate-related risks and opportunities.

- **The IFC** informs and makes recommendations to the Trustee regarding climate-related risks and opportunities directly to support the Scheme's alignment with climate regulations. The IFC is also responsible for monitoring and engaging with the Scheme's managers on how they measure and manage climate-related risks (including engagement activities which are carried out on the Trustee's behalf) and identify

related opportunities as appropriate, as well as reviewing the Scheme's climate-related metrics and scenario analysis on a periodic basis (discussed further under 2. Strategy and 4. Metrics and Targets).

- **The Scheme's external advisors** advise on climate-related risks and opportunities including the provision of climate-related scenario analysis. To ensure they take adequate steps to identify climate-related risks and opportunities, climate-related considerations are included in the investment consultant's objectives – against which the Trustee assesses them annually. Specifically, under delivery of specialist services, the Scheme's investment consultant is expected to "help the Trustee implement an investment strategy that adds value through the integration of ESG (including climate change)".

- Following advice from the Scheme's external advisors **the in-house team (Coats Pension Office)** assist in the implementation of any climate-related enhancements.

In keeping with this governance structure, this Statement has been reviewed by the IFC and approved by the Trustee Board.

The IFC report back to the Trustee on a quarterly basis regarding all key investment matters, including any relevant climate-related risks and/or opportunities. The Trustee also receives quarterly reporting from Redington, which contains information on the relevant metrics and targets selected for monitoring as outlined in "4. Metrics and Targets". The Trustee believes this time spent to be proportionate and reflective of the Scheme's other strategic priorities.

In addition to quarterly reporting, the Trustee discuss and agree strategic changes on how to integrate climate into asset allocation and manager selection as required. Over the year to 31st of March 2023, this included transitioning the Scheme's holdings in the LGIM Global Equity to the LGIM Low Carbon Transition fund and switching from the M&G Alpha Opportunities Fund (AOF) to the M&G Sustainable Total Return Credit Investment Fund (STRCI).

As above, a Climate Risk Mitigation document has also been produced and maintained by the Trustee, which sets out the Trustee's beliefs towards climate risk. The key beliefs within the document include:

- **Climate Change is a Financial Risk:** The Trustee understands climate change as a systemic, long-term financial risk to the value of the Scheme's investments and is therefore committed to developing a specific policy on climate change and will explicitly consider the risk it poses when making investment decisions.

- **Stewardship and engagement combined with risk-based disinvestment:** The Trustee believes stewardship, including effective engagement and voting activities, is an important tool for achieving more sustainable outcomes. The Trustee's preference is for its investment managers to engage with issuers in the first instance but retain the ability to disinvest where appropriate and where engagement has failed (subject to the constraints of the investment mandate).

- **Measuring climate risk is complex and may present ambiguous situations:** The Trustee recognises that best practices will continue to evolve and adapt in this area, and therefore it requires its investment consultant to provide updates on the most pertinent developments.

- **Consider investing in climate solutions:** The Trustee believes that there may be investment opportunities that can contribute towards solving sustainability challenges and provide compelling risk adjusted returns. It will consider such opportunities as appropriate and when consistent with its wider risk and return objectives.

The articulation of the above beliefs is intended to shape the manner in which the Trustee monitors and manages climate-related risks both quantitatively and qualitatively, including its impact on strategic decision making through both manager selection and portfolio

construction. These beliefs have been mapped into underpinning principles for the Trustee’s risk mitigation approach. This approach includes:

- making investment decisions on the basis of uncertain future scenarios rather than managing towards a particular scenario occurring,
- reviewing the Scheme’s current holdings to identify areas of high carbon exposure,
- achieving risk mitigation through asset allocation and reduced investment in carbon intensive assets, and
- engaging with investment managers to integrate all ESG and climate-related considerations to better manage the financial risks of its portfolios in tandem with managing financial risks at the asset level.

These principles are used on an ongoing basis alongside the Trustee’s responsible investment beliefs in the SIP to ensure wider ESG and stewardship considerations are captured within this approach. Over the Scheme year, the Trustee has taken various steps to improve and build its approach to climate risk mitigation, which is set out in 2. Strategy and 3. Risk Management below.

Furthermore, motivated by the desire to align with evolving best practice and acknowledging the nascency of regulation within the space, the Trustee is committed to periodic training regarding responsible investment. As part of this, the Trustee and IFC undertake ongoing training around ESG and Stewardship topics to ensure their understanding and knowledge are up to date with regulatory requirements. Training conducted throughout the last Scheme year included detail on the four metrics that form part of the TCFD requirements, the metrics which are available and commonly being utilised by adopters of TCFD as well as the approach to setting a net-zero target.

The Trustee has set aside appropriate time for future review and discussion of the trustee's approach to climate change in light of the fast pace of change in this space.

Strategy

As per the Statement of Investment Principles, the Trustee’s primary objective is to reach full funding by 2028 using a liability discount rate of Gilts + 0.40%. A core pillar of the investment strategy which is pivotal to achieving these objectives is prudent and effective risk management. The Trustee notes that while climate risk is a risk which must be mitigated, it may also present attractive investment opportunities that are complementary to achieving the Scheme’s objectives.

The Trustee is cognisant of the fact that the Scheme’s portfolio is subject to climate-related risks manifesting in one of two ways:

- **Physical Risks**: These risks relate to the physical impacts of climate change, such as damage and disruption from extreme climatic events and the subsequent effect of these on economies and society, including damage to physical assets and indirect impacts on supply chains.
- **Transition Risks:** These risks relate to the extent of policy, regulation, technology, and market changes that may result from the transition to a low carbon economy. These risks may materialise in the re-pricing or mark-down of investments due to the imposition of carbon taxes or other relevant climate-risk mitigations.

The Trustee notes that the assessment of climate-related risks and opportunities may vary depending on the time horizon being considered. As such, the Trustee has defined climate-

related risks and opportunities over the short, medium and long term, which the Trustee considers appropriate based on the rationale in the table below.

<table>
<tr><td>Short term</td><td>0-3 years</td><td>This will align with the Scheme’s actuarial valuation process.</td><td rowspan="2">This shorter-term focus allows the Trustee to consider the transition risks (such as changes in corporate behaviour driven by regulatory and technological change), that the Scheme will predominantly be exposed to over the short and medium term. There is limited exposure to physical risk on these time frames.</td></tr>
<tr><td>Medium term</td><td>5-10 years</td><td>This is in line with the Scheme’s target full funding date of 2028 (Technical Provisions).

2028 is also the year when the contributions will stop.</td></tr>
<tr><td>Long term</td><td>10-15 years</td><td>This is in line with the Scheme’s liability duration.</td><td>The Scheme will be exposed to both transitional and physical risks associated with climate change, over the longer-term, with physical risk expected to intensify further into the future, which may have pronounced effects on real assets such as property. Meanwhile, deteriorating resource availability may negatively impact the covenant’s position in the long-term.</td></tr>
</table>

Asset and Liability Scenario Analysis

In order to assess the impact on the Scheme’s portfolio, the Trustee undertakes scenario analysis consistent with the PRA’s Life Insurance Stress Tests (the PRA stress test scenarios), as recommended by the Pensions Climate Risk Industry Group (PCRIG). The stresses are designed to show what the impact on the value of the Scheme’s assets would be under the following scenarios:

- Scenario A (Fast Transition): Abrupt transition to the Paris-aligned goal occurring over a two-year period from the date of analysis (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).

- Scenario B (Slow Transition): Orderly transition to the Paris-aligned goal occurring by 2050 (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).

- Scenario C (No Transition): A no-transition scenario occurring in 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels).

The results of these scenarios as at 31st March 2023 (on the gilts + 0.40% basis) can be seen below and further details on the analysis, including key assumptions of the methodology, can be seen in Appendix B.

Scenario	Impact on deficit (£m)	Impact on funding level (%)
Scenario A: Abrupt transition to the Paris-aligned goal occurring two years from date of analysis (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).	-31.22	-1.81
Scenario B: Orderly transition to the Paris-aligned goal occurring by 2050 (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).	-38.60	-2.26
Scenario C: A no-transition scenario in 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels.	-52.03	-3.15

The outcome of the scenario analysis provides the Trustee with insight on the resilience of the current asset allocation against the various climate change outcomes being measured. The expected funding level impact under each scenario is relatively muted, reflecting the diversified and low risk investment strategy. It is important to caution that the results above are static and based on the Scheme's asset allocation as at a point in time. As the Scheme continues to de-risk the portfolio, the results of the PRA scenario analysis are expected to improve. The investment consultant will calibrate the scenario analysis and report the results to the Trustee on an annual basis to allow it to appropriately monitor the Scheme's progress. While the expected funding level impact under the 'No Transition' scenario, which measures purely physical risk, is most negative, the Scheme is expected to lower real asset exposure over time, therefore lowering exposure to physical risk. Further, the Scheme's 95% funding-ratio-at-risk (FRaR) as at 31 March 2023 was 4.7%, some margin below the Scheme's FRaR budget of 7%. The expected funding level impact under both the fast and slow transition scenarios would not lead the Scheme to breach its FRaR budget, exemplifying the resilience of the Scheme's investment and funding strategy to climate risks. While the funding level impact under the no transition scenario would trigger a breach on this metric, as noted above, the magnitude of this impact is expected to taper as the Scheme's portfolio evolves through time.

The output from the climate scenarios reflects the impact to the Scheme's funding position as a result of expected changes to the value of the Scheme's assets and liabilities. Two of the three key liability-related risks (interest rates and inflation) are appropriately hedged using the Scheme's LDI portfolio with BlackRock. Therefore, the Scheme is not significantly exposed to fluctuations in these risks driven by climate. However, the Trustee recognises that the third (and possibly the largest) liability-related risk which the Scheme is exposed to is longevity / mortality risk, which is not integrated into the liability scenario stress conducted using the PRA stress tests. The Trustee has taken prudent steps to minimise the proportion of longevity risk, including transacting a bulk annuity transfer (buy-in) in November 2022 with Aviva Plc. This transaction hedges the longevity risk of the 3,500 pensioner members insured under the

agreement, however the Scheme remains unhedged to the remaining variable life expectancy of non-insured members.

Liability (Mortality) Scenario Analysis

To further understand the effect of mortality in the context of climate change, in August 2022, the Trustee engaged the Scheme's actuary, LCP to assess the effect of climate on mortality, and thus longevity risk, of the Scheme's liabilities through a scenario analysis. The two scenarios considered as part of the analysis include the 'Paris Transition' and a 'Failed Transition', which is broadly equivalent to the 'Slow Transition' and 'No Transition' PRA scenarios. The results of the analysis are as follows.

Transition scenario	Impact on life expectancy
Paris Transition	+2%
No Transition	-2%

These findings have been informed by an assessment of a multitude of factors including the effects of climate change on air quality, air temperature, likelihood of extreme weather events, population adaptation, commodity prices, healthcare quality and food supplies among others under each scenario. As it applies to CUKPS, the increase in life expectancy under the Paris Transition scenario is expected to increase the value of the liabilities and subsequently create a negative expected funding level impact. Contrarily, under a Failed Transition scenario, due to falling life expectancy estimates, the funding level impact is expected to be positive due to a lower value of liabilities, although the Trustee notes that this is not a desired outcome as lower longevity risk as a result of decreased life expectancy is not in the interest of members. The Trustee is aware that the Scheme is more mature than typical UK Defined Benefit (DB) Schemes and therefore is exposed to these variable climate risks over a shorter period.

The Trustee is cognisant that the attractiveness of transacting a partial buy-in or buyout to mitigate longevity risk is uncertain under each of these scenarios. LCP note that under a Failed Transition, higher capital requirements reflecting greater tail risks prompted by greater regulatory climate guidance may worsen pricing relative to gilts. However, under a Paris Transition, higher credit spreads may be beneficial to insurer pricing. The Trustee will continue to monitor appropriate opportunities to transact further partial buy-ins or a buyout to manage longevity risks.

Covenant Analysis

Similarly, in September 2022, the Trustee engaged the Scheme's covenant advisor, PwC, to gauge how the strength of the Sponsor may be impacted by various climate-related risks and opportunities through a scenario analysis. The Trustee acknowledged that the impacts to the sponsor may affect the long-term investment strategy adopted by the Scheme. The analysis concluded that the impact on the covenant over short term and long term is low to medium. As a manufacturer, the Company is exposed mostly to transitional risks over the short to mid-term (up to 2030), including impacts to capital expenditures and profits. Specifically, PwC indicate the risks are that the sponsor may fail to transition to a low carbon model and therefore lose customers, affecting revenue, or face carbon taxes on the Group's emissions, affecting costs. While the Scheme's low dependency target date (2028) is prior to the Scheme interim net zero target date (2030), the Scheme may still be exposed to these covenant risks beyond 2028 as physical risks become more prevalent. The actions considered by Coats to mitigate these risks (such as implementing an effective climate strategy and transitioning to renewable energy) are expected to substantially reduce the likelihood of any restrictions on available cash flows over the long term. As such, these mitigations would also reduce the possible impact on Coats' ability to meet agreed contributions as a result of climate change.

PwC have also highlighted potential opportunities from climate change such as market share gains and expansion of product offerings through successfully implementing a net zero strategy, which will strengthen the sponsor's ability to pay in contributions to the Scheme.

Risk Management

As alluded to above, the Scheme is exposed to climate-related risks stemming from the transition to a lower-carbon economy, in tandem with the physical risks as a result of the impacts caused by climate change. The Trustee appropriately considers the impact of these climate-related risks through a holistic risk management approach. This approach includes the output of the scenario analyses above, integrating climate considerations into asset allocation and manager selection decisions and integrating climate considerations into engagements with its investment managers, albeit on occasions where assets are significantly misaligned with the Trustee's climate target (e.g. carbon-intensive sectors), it has introduced elements of exclusions into some of their fund design, as outlined below.

The Trustee also receives additional climate-related reporting from the investment consultant on a quarterly basis. This reporting contains relevant climate metrics as set out under the DWP's adoption of the recommendations of the TCFD (and as further discussed under section "4. Metrics and Targets"). This allows the Trustee to better identify and manage the climate-related risks which are relevant to the Scheme in a timely manner, as well as monitor the progress of the Scheme on these metrics.

Integrating climate into engagement with managers

The Trustee requires its appointed fund managers to be cognisant of climate-related risks and opportunities within its investment processes as applied to the assets of the Scheme. Active engagement with underlying companies in which the Scheme is invested, specifically relating to climate-related risks and opportunities, is delegated to the Scheme's investment managers. Key takeaways of manager engagements with investee companies are reported back to the Trustee by the investment consultant on an ad-hoc basis, during quarterly meetings, and through the annual Implementation Statement process.

The Trustee has provided its fund managers with full discretion to evaluate investments under the lens of ESG and climate change considerations. They are encouraged to exercise the relevant voting rights for assets where the Trustee has direct ownership. While the Trustee recognises that fund managers apply its own voting policy, formed by its own firm or strategy level governance policies and evolving best practice, the Trustee expects its fund managers to exercise rights attached to its investments in line with the principles set out in the Scheme's SIP.

As discussed previously, the Trustee has set a target for the Scheme of achieving a 50% reduction in its scope 1&2 carbon footprint by 2030, on the basis that this interim target is in line with the path to achieving net zero by 2050, based on the goals of the Paris Agreement. The Trustee has codified this target into the PRMF. These metrics are monitored on a quarterly basis, such that the Trustee is able to review whether the Scheme remains ahead of the quarterly reduction commensurate with remaining on track to achieve its interim target. The Trustee agrees that any changes to the investment strategy, including the selection or sell-down of new and existing mandates should, where possible, aim to keep the Scheme on track for its net-zero target.

Integrating climate into asset allocation and manager selection

The Trustee notes that risk mitigation can be achieved through changes to the strategic asset allocation and its investment managers, including reducing investment in carbon intensive assets, and where possible including restrictions in the Investment Management Agreements (IMA) of segregated mandates with high carbon exposure. Throughout the Scheme year, the

Trustee assessed appropriate opportunities to implement incremental climate-related enhancements to the Scheme's portfolio, cognisant of the fact that the scope to undertake these enhancements are greater within its liquid mandates.

The Trustee has specifically targeted these improvements within its segregated mandates, such as the Buy & Maintain Credit Portfolio held with BlackRock. As the Trustee is the direct owner of the underlying assets within segregated mandates, it provides greater flexibility in updating the investment guidelines. In June 2021, the Trustee, with assistance from Redington, conducted a review of the Scheme's exposure within the Buy and Maintain credit portfolio to categories which may be considered high-risk from a climate change perspective. Following the review, the Trustee agreed to instruct BlackRock to place exclusions on purchasing the credit from issuers with revenues from coal and oil sands (including divesting from existing exposures) in the updated IMA. Building upon the above, the IFC agreed to transition from the Sterling Liquidity Fund (SLF) to the Liquid Environmentally Aware Fund (LEAF). The LEAF fund is operationally similar to the SLF, although the fund applies similar exclusions to those within the Buy and Maintain credit portfolio.

Aside from its segregated mandates, the Trustee also reviewed the scope to enact potential decarbonisation initiatives within its equity allocation with LGIM. In August 2022, the Trustee agreed to transition its holdings in the LGIM Global Equity to the LGIM Low Carbon Transition fund. The switch was motivated by a desire to align with the Trustee's responsible investment beliefs given the expected reduction in the mandate's carbon intensity. The Low Carbon transition fund has a decarbonisation target of 30% relative to the broader market benchmark, along with a forecasted c.7% year-on-year reduction target, the combined effect of which is aligned with the Scheme's decarbonisation targets.

In order to improve the Scheme's liquidity profile and to move to a mandate which specifically focusses on sustainability and climate risk, in January 2023, the Trustee agreed to switch from the M&G Alpha Opportunities Fund (AOF) to the M&G Sustainable Total Return Credit Investment Fund (STRCI). The STRCI fund applies broadly similar exclusions to those in the LGIM Low Carbon Transition Fund and BlackRock Buy and Maintain Credit portfolio. Beyond these exclusions, M&G employ active tilts towards companies that they deem to be 'Climate Transition Leaders', in addition to companies that score best on their discretionary ESG scorecard. As at 30 June 2022, M&G estimate the carbon footprint of the STRCI fund is 27% lower than the AOF Fund, with 18% percentage points higher data coverage (52% vs 70%).

Furthermore, as per the engagement policy set out in the Appendix A, the Trustee recognises the importance of engaging with investment managers to integrate ESG and climate-related risks and opportunities into their portfolios to ensure financial risks are managed at an asset level. Active engagement with the Scheme's appointed fund managers is conducted in part by Redington, in conjunction with the Trustee during any meetings to which fund managers are invited. The Trustee schedules two to three manager meetings each year where the Trustee can engage with the fund managers, including concerns around climate change or ESG policies. Throughout this engagement process, fund managers are asked to provide details of how climate-related risks and opportunities have been incorporated into the investment process. The Trustee aspires to continue increasing the level of engagement with its fund managers to ensure that adequate steps are being taken in this respect.

The Trustee also relies on the manager research and monitoring capabilities of Redington, to effectively assess climate-related risks and opportunities, both within individual mandates and across the overall investment strategies. An example of this came as part of the Scheme's switch from the M&G AOF to the M&G STRCI Fund. On behalf of the Scheme, Redington conducted research into the sustainability and ESG criteria being applied in the STRCI fund, and its alignment to the Trustee's responsible investment beliefs.

Metrics and Targets

Metrics

With regards to quantitative metrics, the Trustee – on a quarterly basis – monitors for climate metrics:

Metric	Explanation
Absolute Emissions: **Total Greenhouse Gas (GHG) Emissions[1]**	• This metric measures the total emissions associated with the Scheme's investments across three scopes: scope 1, scope 2 and scope 3 emissions. • The emissions under consideration within this metric are not only made up of carbon dioxide, but also includes all other measurable greenhouse gases such as methane and nitrous oxide, among others, to accurately represent total emissions. • To simplify accounting for emissions, rather than report on each individual gas separately, a common unit known as carbon dioxide equivalents (CO2e) is reported (whereby each gas is weighted in terms of the amount of carbon dioxide (CO2) that would create the same amount of warming).
Emissions Intensity: **Carbon Footprint**	• Total GHG emissions for a portfolio, normalised by the market value of that portfolio. • Carbon emissions are allocated based on equity and/or debt ownership, using Enterprise Value Including Cash (EVIC) as a proxy for market value. • Carbon footprint allows for benchmarking comparisons and portfolio decomposition and attribution analysis, which is useful for assessing whether investment decisions are in-line with decarbonisation goals.
Additional climate-change metric: **Slow Transition PRA Stress Test**	• A stress scenario is an estimation of how the value of a portfolio could be impacted by transition and physical climate risks over a relevant timeframe, as computed by the Bank of England's Prudential Regulatory Authority. • As the Trustee views climate change as a systemic, long-term financial risk to the value of its investments, the Slow Transition scenario is best aligned to a long-term orderly transition in line with the Paris agreement. • The metric allows for a monetary value to be attached to climate risk and provides a good indication of the direction and magnitude of the exposure.

[1] Calculation methodologies and reporting practices are most advanced for scope 1 and scope 2 emissions with scope 3 emissions scarcely reported by companies. For this reason, scope 3 emissions are based on estimates from the Trustee's data provider MSCI.

Portfolio Alignment: **Science-based Targets Initiative (SBTi)**	• This metric is focused on measuring the Scheme's alignment to the goals of the Paris Agreement. • This metric examines whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway. There is evidence that companies that have set science-based targets are delivering emissions reductions in line with their ambitions, making this a key metric to monitor to drive positive change. • SBTi is also aligned with the Scheme's emissions and net-zero target.

The details of the methodologies behind these metrics can be found in the appendices. The Trustee's ability to report on these metrics is dependent on the data provided by the Scheme's managers and external data providers. The Trustee will continue to engage with these parties to improve coverage.

The results of the analysis as of 31st March 2023 using the Scheme's asset allocation at the time are displayed in the table below.

LDI and cash assets are excluded from the analysis due to carbon accounting methodologies not being sufficiently developed in these areas, meaning the Trustee was not able to calculate the metrics using data available. The Trustee will engage with its asset manager for the fund over the next year to provide emissions for the Scheme's LDI exposure.

The Trustee has engaged with Aviva Plc to understand emissions relating to the Scheme's bulk annuity transfer (buy-in). Using published data from Aviva Life & Pensions UK Limited, the Trustee has estimated their proportionate share of the absolute carbon emissions to be c.19,000tCO2e[2].The data provided by Aviva covers Scope 1 & 2 data from 2022. The Trustee will continue to engage with Aviva over the next year to improve this coverage.

	Absolute Carbon Emissions (tCO2e)		**Carbon Footprint (tCO2e/ £m)**		**"Slow Transition" Climate PRA Stress Impact***	**Science Based Targets Initiative Rating**
	Scopes 1 & 2	**Scope 3**	**Scopes 1 & 2**	**Scope 3**		
31/03/2023	61,347	295,866	77.1	371.7	-2.3%	15.0%

*The results of the PRA Slow Transition metric are reported as the expected funding level impact which combines the effect of a stress being applied to both the assets and liabilities (excluding impacts on longevity) of the Scheme. The 2.3% figure is the total impact on all assets and a breakdown of the impact on the various return-seeking assets is provided in appendix E.

Given this is the Trustee's first disclosure, the results of these metrics have only been displayed as at the date of this report. However, the Trustee notes that improvements have been made on absolute carbon emissions, carbon footprint and the climate PRA stress impact

[2] As per the DWP guidance relating to the calculation and attribution of emissions relating to buy-in contracts, in the absence of look through data, the Trustee has used emissions data relating to the insurer's total assets backing their UK pension bulk annuity book (Aviva Life & Pensions UK Limited) and taken a proportionate share for the Scheme.

over the Scheme year. This progress was partially driven by climate-related enhancements to the Scheme's return-seeking mandates with LGIM, M&G and Blackrock as well as de-risking exercises. However, this was also a result of a decreasing allocation to return-seeking assets, driven by two key factors:

1) Rising interest rates has reduced the size of the Scheme's LDI portfolio over the year, and rebalancing from return-seeking assets into LDI to align with the strategic asset allocation targets.
2) Following the LDI crisis in Q3 and Q4 2022, pension schemes are mandated to hold significantly more capital in LDI as collateral to support hedging. This required further rebalancing from return-seeking assets into LDI assets in addition to the above.

The Trustee also acknowledges that due to the illiquid nature of a portion of the Scheme's assets, for which data availability is an inherent issue, the level of data coverage on these metrics may be constrained. As outlined in Appendix E, data is only available for three of the Scheme's liquid mandates (BlackRock Buy & Maintain Credit, M&G STRCI and LGIM Low Carbon Transition Equity) which totals c.23% of total Scheme assets, caveating that the emissions for the LDI portfolio has been excluded as above. For those funds without data coverage, these have been proxied to other assets in order to estimate their emissions on these metrics. Should data availability improve over time, the Trustee will look to increase its level of coverage correspondingly.

The Trustee considered these metrics when making decisions regarding the strategic asset allocation and will continue to include these considerations as part of future manager selection exercises. The Trustee will review these metrics annually to ensure they remain appropriate for the Scheme. The Trustee is also aware that regulatory guidance and data quality is expected to improve over time, which may lead to industry best practice evolving for each of the four metric types being considered. The Trustee will continue to keep abreast of these factors, along with the Scheme's strategic objectives and asset allocation, to ensure the chosen metrics are the best fit for the Scheme as part of the annual review.

Target

As mentioned, in September 2022, the Trustee agreed to target aligning the investment strategy with the goals of the Paris Agreement by setting a target of achieving a 50% reduction in Carbon Footprint of Scope 1 and 2 emissions at the total Scheme level by 2030, using the prevailing allocation and carbon footprint as of 31st March 2022 as a baseline. This shorter-term target is aligned with the Trustee's aspirational objective of achieving net zero emissions by 2050. An interim target has been set within 10 years to comply with global ambitions, being aligned with the pathway to achieving full net zero by 2050, should the Trustee select to extend its target in the future. The target is aligned to the net zero target set by the Scheme's sponsor, Coats Plc, who have employed a long-term target to reach net-zero emissions by 2050 setting science-based emissions reduction targets that are consistent with keeping global warming to 1.5°C above pre-industrial levels. Aligning the Scheme's target with the sponsor helps to mitigate against covenant climate-risk exposure, while also ensuring climate-related risks are appropriately addressed and reduced, as and when appropriate.

The Scheme currently remains ahead of its target as of 31st March 2023, achieving a c.12% reduction in emissions relative to the Scheme's position as at 31st March 2022 (88 tCO_2e/ £m for Scope 1 and 2 emissions), ahead of the required reduction (6.5%) to remain on track to achieve the target.

The Trustee has outlined above steps taken over the year to achieve this target, including transitioning the Scheme's holdings in the LGIM Global Equity to the LGIM Low Carbon Transition fund and switching from the M&G Alpha Opportunities Fund to the M&G Sustainable Total Return Credit Investment Fund. The Trustee continues to monitor progress against this target quarterly through the Scheme's PRMF. The Trustee agrees that any changes to the investment strategy, including selection or sell-down of new and existing mandates should, where possible, aim to keep the Scheme on track for its net-zero target.

As per the regulatory guidance, the Trustee will continue to report on this target yearly, within this Climate Disclosure Report, as well as review this target on an annual basis and furthermore determine whether this should be retained or replaced.

As noted above, for the purpose of this analysis, emissions from gilts and cash are currently excluded due to methodological challenges. However, the Trustee understands that this is a fast-moving area and therefore will revisit the treatment of this in future as best practice within the industry develops. More broadly, the expectation is that this output will evolve over time as data availability is likely to improve and increasing public disclosures should increase the speed at which the data becomes available. For those funds invested in by the Scheme with no coverage, the Trustee will engage with these managers to encourage them to improve their reporting of emissions.

Note: All analysis is provided by the Scheme's Investment Consultant, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI ©. Please refer to the data disclaimer in Appendix C, D and E.

Corah Defined Contribution Section

As outline in the SIP, the Scheme also has a legacy defined contribution sector for members of Corah (a company acquired by the Sponsor in the past). The members of the Defined Contribution (DC) section within the Corah benefits structure are all invested in with profits policies provided by Prudential. At present, emissions data relating to the investments pertaining to the members in the Corah investment structure are unavailable, and the Trustee will continue to monitor data availability in this area with the intention to report emissions as and when it becomes available. However, given the with profits structure of this section, the Trustee has limited scope to enact any changes to the fund, such that climate risks and opportunities can be actively managed and/or mitigated.

Appendix A: Monitoring Climate-Related Risks and Opportunities Policy (Extract from Statement of Investment Principles)

Corporate Governance

The Trustee policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the Asset Managers on behalf of the Trustee having regard to the best financial interests of the beneficiaries. The Trustee has been made aware of each Asset Manager's corporate governance policy where appropriate and has delegated the exercise of such rights to the Asset Managers.

Social, Environmental and Governance Issues

The Trustee incorporates all financially material considerations into decisions on the selection, retention, and realisation of investments through strategic asset allocation decisions and the appointment of Asset Managers, so far as possible. The Trustee believes the investment time horizon to fund all future benefits is a long-term one and that it must therefore invest responsibly, targeting sustainable outcomes to ensure it is able to pay its members on time, and in full. Non-financial matters are not taken into account in the selection, retention and realisation of investments.

The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme, but will have varying levels of importance for different types of assets invested by the Scheme. As such, it will consider ESG-related factors when making decisions in relation to the Scheme's asset allocation and manager selections, including any future buy-in/out transactions.

The Trustee believes ESG considerations are one of a number of important inputs into decision making when setting the strategic asset allocation of the fund. The Trustee considers how the exposure to risk is managed when selecting asset classes, sub-sectors, and specific Asset Managers or strategies. The Trustee believes that there may be investment opportunities that can contribute towards solving sustainability challenges and provide compelling risk-adjusted returns. It will consider such opportunities as appropriate and when consistent with its wider risk and return objectives. The Trustee is also mindful of the societal impact of its investment decisions and is committed to a responsible investment approach which is at once responsive to this and consistent with its overarching fiduciary obligations.

When selecting new Asset Managers, the Trustee seeks to make itself comfortable that they can adequately manage ESG-related risks on its behalf and invest in line with its beliefs (where possible). Whilst the Trustee expects its Investment Consultant to monitor the ESG capabilities of its managers, it seeks to review all existing managers periodically to ensure they are held to account. If the Trustee is not satisfied that its managers are investing responsibly, it will express its concerns, retaining the ability to divest if adequate improvements are not made.

The Trustee expects the provider of the insurance agreement, Aviva, to operate similar standards in respect of managing ESG-related risks and stewardship as set out for the Scheme's asset managers above.

The Trustee understands climate change as a systemic, long-term financial risk to the value of its investments and is therefore committed to developing a specific policy on climate change and will explicitly consider the risk it poses when making investment decisions.

The Trustee recognises that best practices will continue to evolve and adapt in this area, and therefore it requires its Investment Consultant to keep it updated on the most pertinent

developments. The Trustee is committed to periodically reviewing its approach to responsible investment to ensure it remains appropriate.

Stewardship and Engagement Policy

The majority of the Scheme's assets are either held across gilts and swaps, whereby stewardship and engagement is less applicable, or within pooled funds, whereby the Trustee has less direct influence over the managers' policies due to the collective nature of these investments.

The Trustee believes stewardship and effective engagement (including voting activities) are important tools to achieving more sustainable outcomes.

This includes monitoring and engaging with relevant persons including issuers of debt or equity on relevant matters including financially material environmental, social or governance issues, and, where relevant, using voting rights to affect the best possible sustainable long-term outcomes. The Trustee's preference is for its Asset Managers to engage with issuers in the first instance but retain the ability to disinvest where appropriate and where engagement has failed (subject to the constraints of the investment mandate). It expects its Asset Managers overall to be good stewards and engage on its behalf and will monitor them to ensure they do. To this end, the Trustee requires sufficient reporting to ensure that its Asset Managers' practices are aligned with its beliefs. The Trustee requires its Investment Consultant to monitor and report on the voting behaviour carried out on its behalf and requires its Investment Consultant to report periodically on how its Asset Managers have acted with respect to the Trustee's policy on stewardship and engagement. The Trustee will disclose any highlights as part of this review annually in its Implementation Statement.

When appointing a new Asset Manager, the Trustee's Investment Consultant assess the ability of each Asset Manager in engaging with underlying companies in order to promote the long-term success of the investments.

Appendix B: Scenario Analysis

As part of its 2020 biennial stress tests, the Bank of England's Prudential Regulation Authority conducted an exploratory exercise to test the impact of future climate change scenarios on the assets and liabilities of (re)insurers, using predictions by the Intergovernmental Panel on Climate Change (IPCC) and academic literature as the basis for its modelling assumptions.

Using the same methodology, Redington have constructed similar tests that allow the Trustee to examine the impact on the funding position, via the effect on asset values, of the Group under three scenarios.

The magnitude of each of the physical and transition shocks varies across industries under each scenario, meaning some assets may fare better or worse under one scenario compared to another. For Scenario A (fast transition): the downside comes almost entirely from transition risk. For Scenario B (slow transition): the downside comes from a mix of transition risk and physical risk. For Scenario C (no transition): the risk is entirely physical risk.

In terms of the assumptions made under these scenarios, the PRA recognised that feedback loops between climatic shocks and structural economic change need to be incorporated when assessing the financial impacts on businesses of physical and transition risk under each emissions scenario. However, due to existing modelling and data constraints, this is a complexity that is purposely excluded from the modelling.

There is also an acceptance that the timing and sequence of financial impacts will be complex, as behavioural changes could result in physical risks preceding transition risks and vice versa. For the purpose of simplicity, where an asset is subject to both physical and transition risk, the shocks are applied consecutively, with the physical shock applied second.

Appendix C: Carbon Footprint Analysis

Climate reporting as of 31st March 2023 can be found in Appendix E. This reporting includes the chosen first and second metric as described under "4. Metrics and Targets". The outputs for the third (the result of the "Slow Transition PRA stress test") and fourth metric (Science Based Targets initiative) are outlined in Appendix B and Appendix E respectively. The expectation is that this output will evolve over time as data availability is likely to improve and increasing public disclosures should increase the speed at which the data becomes available.

Where possible and where there is reasonable data coverage, the Trustee monitors 'line-by-line' emissions reporting for funds. These tend to be more generic, long-only asset classes such as listed equity and corporate credit. However, for funds with less than 50% coverage and illiquid assets, the Trustee monitors 'asset class level' carbon estimates in the absence of reliable, reported line-by-line emissions data from MSCI. The Trustee notes using asset class modelling of emissions for assets where this data is not available enables a more holistic view of total portfolio emissions, albeit recognising that the modelled data is not perfect.

The asset class modelling of emissions has been provided by Redington and is based on asset class 'building blocks'. These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI All Country World Index (MSCI ACWI) as a proxy for a broad equity fund) or in some cases these indices are used and extrapolated to other asset classes based on given assumptions (such as using the emissions of infrastructure firms within an index to proxy an infrastructure fund).

Emissions metrics are calculated in line with the GHG Protocol Methodology, the global standard for companies and organisations to measure and manage their GHG emissions. The GHG Protocol provides accounting and reporting standards, sector guidance and calculation tools. It has created a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities and policies to enable greenhouse gas reductions across the board.

This analysis contains estimates of the Scheme's scope 3 greenhouse gas emissions, i.e. the "financed emissions" associated with the Scheme's investments. The Trustee acknowledges the impact its own actions may have and does consider them, but the Scheme's scope 1 and scope 2 emissions (i.e., the use of fuel and electricity in office buildings) are nominal in comparison to scope 3 emissions (i.e., the emissions arising from investments). Definitions of scope 1, 2 and 3 emissions can be seen in the glossary of terms.

The Trustee recognises that there can be some degree of double counting in including scope 3 emissions for all investments in the same portfolio (due to the potential supply chain relationships between companies within the portfolio). For this reason, scope 3 emissions figures have been reported separately from scope 1&2 emissions.

Appendix D: Portfolio Alignment Metric

In September 2022, the Trustee has agreed to adopt the Science Based Targets Initiative (SBTi) as its chosen fourth metric, which measures whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway.

As part of SBTi, a company or issuer will sign a commitment to self-develop a single or multiple pathways to reduce GHG emissions, with 24 months to develop this pathway, submit it for SBTi validation and publish the approved target. The Company/Issuer's chosen decarbonisation target can be aimed at one or all of; the short term, long term or net zero, with each company being scored with a binary yes or no assessment on the following target categorisations: "SBTi Approved 1.5 C", "SBTi Approved Well Below 2 C" or "SBTi Approved 2 C", all of which denote the implied global temperature increases the target. Should a

company/issuer's decarbonisation pathway not comply with either of the Paris-aligned targets, it will be assigned a 'Not Committed' rating.

Using line-by-line data, Redington can calculate the proportion of assets invested within each fund the Scheme is invested in, that correspond to each SBTi score classification, ignoring negative allocations. Where line-by-line data is not available, managers can also provide these proportions if they have access to the data. A scheme-level score is calculated as the value weighted average of the fund level scores (i.e., for an example Scheme XYZ, that is 40% invested in Fund X with an SBTi score of 20% and 60% invested in Fund Y, with an SBTi score is 30%, the Scheme-level aggregate SBTi score (26%) is calculated through a weighted-average of these fund's weight within the portfolio and SBTi score)

The results of this metric as of 31st March 2023 is set out in Appendix E. The Trustee will continue to monitor this each quarter.

Appendix E: SBTi and MSCI Climate Metrics Output

Fund	Fund Value (£m)	Science Based Targets Initiative Rating	PRA Slow Climate Stress
		31/03/2023	31/03/2023
LGIM Low Carbon Transition Global Equity Index Fund (90% Hedged)	71.5	41.1%	-7.1%
Aegon European Asset Backed Securities (ABS) Fund	77.8	-	-0.6%
M&G Sustainable Total Return Credit Investment Fund	60.8	18.0%	-1.8%
BlackRock Buy & Maintain Credit Portfolio	249.1	31.8%	-1.9%
Standard Life Long Lease Property Series I Fund	84.0	-	-8.0%
ICG Senior Debt Partners 3C Fund	22.2	-	-4.7%
Permira Credit Solutions III - Senior Fund	26.2	-	-4.7%
Standard Life Commercial Ground Rent Fund	101.4	-	-8.0%
Standard Life Capital Infrastructure I Fund	102.9	-	-10.9%
TOTAL PORTFOLIO	**795.9**	**15.0%**	

Fund	Fund Value (£m)	MSCI Climate Metrics Coverage %	Absolute Carbon Emissions (tCO2e) 31/03/2023		Carbon Footprint (tCO2e / £m) 31/03/2023	
			Scope 1+2	Scope 3	Scope 1+2	Scope 3
LGIM Low Carbon Transition Global Equity Index Fund (90% Hedged)	71.5	99.1%	1,574	14,352	22.0	200.8
Aegon European ABS Fund	77.8	-	3,101	20,675	39.8	265.6
M&G Sustainable Total Return Credit Investment Fund	60.8	76.1%	3,811	25,470	62.7	418.8
BlackRock Buy & Maintain Credit Portfolio	249.1	95.6%	32,844	160,289	131.9	643.6
Standard Life Long Lease Property Series I Fund	84.0	-	574	4,213	6.8	50.2
ICG Senior Debt Partners 3C Fund	22.2	-	3,702	17,452	167.0	787.1
Permira Credit Solutions III - Senior Fund	26.2	-	4,381	20,653	167.0	787.1
Standard Life Commercial Ground Rent Fund	101.4	-	693	5,087	6.8	50.2
Standard Life Capital Infrastructure I Fund	102.9	-	10,668	27,677	103.7	269.0
TOTAL PORTFOLIO	**795.9**		**61,347**	**295,866**	**77.1**	**371.7**

All “Total Portfolio” figures in this table are weighted averages with the exception of “Fund Value” and “Absolute Carbon Emissions (tCO2e)”.
“Absolute Carbon Emissions (tCO2e)” is calculated using the notional value of the fund. “Fund Value (£m)” shows the mark-to-market value.
Carbon metrics are proxied where there is insufficient data for funds. In these instances, no figure is shown for MSCI Climate Metrics Coverage.
ESG and MSCI Carbon Metrics meet the current minimum UK DWP's TCFD-aligned “Metrics and Targets” regulations. However, regulations are subject to change. Redington monitors developments closely.
Certain information ©2023 MSCI ESG Research LLC. Reproduced by permission.
Emission metrics are calculated for return seeking assets only.

Glossary of Terms (ESG and Carbon Metrics)

Enterprise Value Including Cash (EVIC): Defined as the sum of market capitalisation of shares and book values of total debts and minority interests at fiscal year-end. No deductions of cash or cash equivalents are made to avoid potential negative enterprise values. This is the recommended denominator metric for carbon attribution according to the GHG Protocol, the global standard for carbon accounting endorsed by the European Union and the DWP.

Estimated Scope 3 Carbon Footprint (tCO2e / EVIC £m): Measurement of the estimated Scope 3 CO2e emissions of a fund per million pounds of EVIC. Scope 3 emissions refer to all those that are not in direct control of a company's productive activities. Namely, all those emissions from a company's upstream supply chains and downstream product use by the consumer.

Estimated Total Mandate Carbon Emissions (tonnes): Represents the total share of Scope 1, Scope 2, and Scope 3 carbon emissions a fund is responsible for. Please note the metric is sensitive to the investment holding size in the fund.

MSCI Climate Metrics Coverage: The proportion by value of a fund for which carbon metrics are available from MSCI. Climate metrics are proxied where coverage is low and in this case, the MSCI Climate Metrics Coverage will be assumed to be.

Scope 1 & 2 Carbon Footprint (tCO2e / EVIC £m): Measurement of the Scope 1 & 2 CO2e emissions of a fund per million pounds of EVIC. Scope 1 emissions refer to those which are directly connected to the production of a company's product or service. For example, the burning of fossil fuels to power the electricity grid. Scope 2 emissions refer to those from the electricity used to power the facilities and machinery of a company.

Total Carbon Footprint (tCO2e / EVIC £m): Measurement of the CO2e emissions of a fund per million pounds of EVIC using Scope 1, Scope 2, and Scope 3 emissions. Given a company's direct Scope 1 emissions will inevitably be another company's indirect Scope 3 emissions, aggregating the individual Scope emissions results in a higher number of emissions than exists. To mitigate double counting, we apply a scaling factor in accordance with MSCI's methodology. This metric may be used to assess a fund's contribution to global warming versus other funds. Previous Total Carbon Emissions (tCO2e / £m invested) are estimated by looking at the funds' respective holdings and emissions 12 months ago.

Tonnes of Carbon Dioxide Equivalents (tCO2e): Tonnes of greenhouse gases including methane, nitrous oxide, carbon dioxide, and fluorinated gases. Given the abundance and prominence of carbon as a greenhouse gas, all the other gasses are considered carbon equivalents.

SBTi Score: The Science-Based Targets initiative ("SBTi") sets out a framework through which companies can set out their decarbonisation pathway and have them assessed against the goals set out in the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels or well-below 2°C. The SBTi Score is the proportion of assets invested that are classified as being Paris-aligned.

PRA Slow Transition Climate Scenario Analysis: Redington's extrapolation of a stress test constructed by the Prudential Regulation Authority ("PRA") to explore the % impact of future climate change on assets. A slow transition assumes a long-term, orderly transition that is broadly in line with the Paris Agreement out to 2050.